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6 December 1985NOTE FOR: Hal Ford  
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SUBJECT: Thoughts regard Wall Street Journal Article on Argentina

1. Argentina is obviously still in the early stages of its fight against hyperinflation. I believe there is some (less than 50-50) chance for success.

- The strong popular consensus that was necessary to stop hyperinflation in Europe during the 1920s now exists in Argentina. That consensus did not exist 12 months ago.
- The Argentine government has studied the successful cases of ending hyperinflation in Europe and formulated, in my opinion, an excellent game plan.
- Taking from these historical examples, Argentine policymakers know that the introduction of a new currency must coincide with elimination of the government deficit.
- They also know that the deep recession caused by real wage reductions during the freeze period can last less than 12 months--short enough to reasonably hope to hold together the consensus.

Indeed, over the past three months, the government in Argentina has apparently spent less than it has taken in, the freeze is working, and the consensus is holding.

2. More pressure will come on the government over the next few months as selective increases in prices are made to prevent corporate bankruptcies. Labor's reaction to these increases and its willingness to accept very small wage increases will be crucial. This will also be the period when the economy is performing most poorly.

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3. While it is possible to be sanguine about the short term prospects for ending hyperinflation in Argentina, i.e., to attain a fairly low level of inflation during a one- to three-year post-freeze expansion, the longer-term prospects are not good. Alfonsin has made it clear that the government will not reduce its large role in the economy. Also, labor will continue to be a strong force in Argentina. In addition, it will be very difficult to improve tax compliance. Lastly, the European success stories involve countries where the popular mindset was that inflation was a war-related phenomenon and the natural state of affairs in peacetime, given appropriate government policies. In these areas, the new policy team has 50 years of Argentine history against it.



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